Meeting note—IFRS® Taxonomy Consultative Group

The IFRS Taxonomy Consultative Group (ITCG) met in the IFRS Foundation's London office on 27 and 28 February 2023 (the majority of members attended remotely). This note, prepared by the Foundation staff, summarises the discussions. Related papers and recordings of the meeting are available on the meeting page.

The ITCG members discussed:

- IASB digital financial reporting strategy update (paragraphs 1–2);
- IFRS Accounting Taxonomy – digital representation of subtotals and categories in the statement of profit or loss (paragraphs 3–12);
- Feedback on IFRS Accounting Taxonomy 2022 Proposed Update 1 (paragraphs 13–15);
- IFRS Sustainability Disclosure Taxonomy – general update (paragraphs 16–21);
- IFRS Sustainability Disclosure Taxonomy – facilitating use in jurisdictions which do not permit extensions (paragraphs 22–30); and
- IFRS Accounting Taxonomy – financial instruments common practice review (paragraphs 31–43).

IASB digital financial reporting strategy update

1 The staff provided an update on the IASB's digital financial reporting strategy and activities the IASB will prioritise—to help improve the usefulness, quality, accessibility and comparability of digital financial reports.

2 ITCG members were asked to discuss the update and give their advice on areas that require further research or consideration. Feedback received is summarised below.

a. Some aspects of the IASB's digital reporting strategy are likely applicable to the ISSB.

b. There is a need for connectivity between the IASB and ISSB on capacity building activities—particularly, for developing countries.

c. Capacity building is critical. Jurisdictions can learn from the digital implementation experiences of others. Need to consider what guidance, examples, case studies and technical tools and systems can help minimize the time it takes to get investor grade information.

d. Currently there is a lack of an international assurance standard on digital reporting. The International Auditing and Assurance Standards Board (IAASB) is currently consulting on its agenda. It would be helpful for the IFRS Foundation to support the need for an international assurance standard on digital reporting.

e. It would be helpful for the IASB to develop instance documents and examples of tagged disclosures. This could also help the taxonomy team to test the application of the taxonomy.

f. The IASB should consider the use of more validation within the taxonomy, which could help with data quality issues.

g. The introduction of block tagging in Europe along with multi-tagging requirements has created discussions around the relationships between elements and the possible need for a hierarchy of elements. This topic may need to be given priority by the IASB.

h. There is an increasing number of digital filings around the world using the IFRS Accounting Taxonomy. Anecdotal feedback suggests inconsistencies in the application of IFRS Accounting Standards and the IFRS Accounting Taxonomy. Research could be untaken, using the digital disclosures, to investigate such inconsistencies. The IFRS Foundation could then consider how to address these inconsistencies—eg develop materials or certifications.

IFRS Accounting Taxonomy – digital representation of categories and subtotals in the statement of profit or loss

3 The IASB is finalising its redeliberations on the proposals in the Exposure Draft *General Presentation and Disclosures* (Primary Financial Statements (PFS) Project), which will replace IAS 1 *Presentation of Financial Statements*. At this meeting, ITCG members continued the discussion on the digital representation of the proposals in the Exposure Draft (including tentative decisions the IASB has made during its redeliberations), focusing on the proposal:

a. to classify income and expenses into the categories 'operating', 'investing' 'financing', 'income tax' and 'discontinued operations' in the statement of profit or loss; and

b. to require presentation of the subtotals 'operating profit or loss' and 'profit or loss before financing and income tax' in the statement of profit or loss.

4 The staff asked ITCG members whether line item modelling in conjunction with using category metadata would achieve the objective of the PFS proposals and should be pursued as an approach. In addition, the staff asked ITCG members whether category metadata, if pursued, should only be used when the label of the taxonomy element does not convey information about the category or whether category metadata should be used in general. ITCG members were also asked whether they had any other suggestions with regard to tools that could be explored in conjunction with line item modelling.

Use of category metadata

5 One member suggested to introduce a mechanism which is simple to use. And because the mechanism will be new for preparers, guidance should also be provided to the preparers to enable the consistent use of the mechanism.

6 One member suggested a proof of concept for the use of category metadata would be helpful.

7 Some ITCG members said that if category metadata was to be pursued it should be applied consistently (that is, not only be used for a few elements).

8 A few ITCG members thought that a line item approach on its own could work, one noting this is currently used for categories in the statement of cash flows. They were concerned about introducing any new mechanism such as category metadata because it could lead to diversity in digital reporting.

9 One member noted that not every jurisdiction requires the filing of the presentation linkbase with the digital financial statements. Therefore, for those jurisdictions, an approach that conveys category metadata via the presentation linkbase would not be functional.

10 One member said that the metadata which is already available in the taxonomy and digital financial reports are not being utilised fully. They suggested developing a guide for data providers to enable the best possible use of the available metadata.

Other tools in line item modelling—dummy elements

11 Some ITCG members did not think using dummy elements in the taxonomy should be considered as an approach because such elements would not be comparable for users and each element should have a meaningful label. Further, it would be difficult to decide how many dummy elements would be needed, when preparers should use dummy elements and when preparers should create extensions.

Other approaches—dimensional modelling

12 Some ITCG members were in favour of a dimensional modelling approach with regard to providing information about the category in the statement of profit or loss in which an item is included. However, one member said that it could be difficult for users to get the required information if a dimensional approach were applied. For example, if one line item is tagged with multiple members it could be difficult for users to understand which dimension takes priority over others, which dimensions are used for disaggregation and which ones are used to provide additional information.

Feedback on IFRS Accounting Taxonomy 2022 Proposed Update 1

13 The staff summarised public feedback received, along with the staff responses, on the IFRS Accounting Taxonomy 2022 Proposed Update 1 *General Improvements and Common Practice* and then asked the ITCG members if they had any comments on the feedback.

14 Regarding the proposal to create a new common practice element 'Property, plant and equipment including right-of-use assets', one member asked:

a. if the new element will be used in the statement of financial position, then for its reconciliation in the notes to the financial statements, should the preparers use existing elements related to property, plant and equipment or create extensions; and

b. later, when the new elements for reconciliation of property, plant and equipment including right-of-use assets are added, how will this be communicated to the preparers to change their tagging?

15 Staff responded that preparers should use the existing elements related to property, plant and equipment, instead of creating extensions, to tag the reconciliation of property, plant and equipment including right-of-use assets in the notes. The staff will provide guidance within the taxonomy and in the related IFRS Accounting Taxonomy Update.

IFRS Sustainability Disclosure Taxonomy – general update

16 The staff presented some proposals considered for the upcoming Proposed IFRS Sustainability Disclosure Taxonomy.

17 The staff recommend presenting elements in the IFRS Sustainability Taxonomy only based on the order of requirements within the text of the Standards. This is because there were mixed views as to the usefulness of an additional presentation approach. The staff stated that a cross-cutting view can be added in the future.

18 A member commented that, in their view, taxonomy presentation should simply follow that within the text of the Standards, and that since a cross-cutting view is not (currently) provided in the Standards it should not be provided in the Taxonomy.

19 Several ITCG members supported a further recommendation to represent disclosure requirements in S2 that are a reiteration of S1 disclosures by using the same elements as are used to represent the equivalent S1 disclosures.

20 One member also encouraged the use of Boolean and other categorical elements alongside narratives to help users to select and filter filings. They said that narrative disclosures on their own may be long, complicated or otherwise difficult to understand. However, another member cautioned that use of categorical elements depends on whether the Standards require disclosures to convey discrete information.

21 ITCG members raised the topic of interoperability and comparability, highlighting the importance of cooperation with, among others, EFRAG.

IFRS Sustainability Disclosure Taxonomy – facilitating use in jurisdictions which do not permit extensions

22 ITCG members discussed the staff analysis of factors to assess when deciding whether to facilitate use of the upcoming IFRS Sustainability Disclosure Taxonomy in jurisdictions which do not permit the use of preparer extensions ('closed' reporting systems).

23 Most ITCG members agreed with the factors being considered, emphasising a consideration of the nature of the information to be reported. One observed that if the nature of reporting is based on a pre-defined structure ("like a tax return form") then a closed reporting system makes sense. In contrast in the preparation of financial statements, and hence the use of IFRS Accounting Taxonomy, a preparer has the flexibility to create their own structures and line-items, and so an 'open' reporting system (where preparer specific elements may be created and used) makes sense. They thought the decision was firstly a question of the standards themselves: is all the reporting expected to share the same common structure?

24 A member asked whether it was expected that some jurisdictions would develop their own taxonomy using the IFRS Sustainability Disclosure Taxonomy as a base, adding their own jurisdictionally specific items. Staff replied that the working assumption was that there would indeed be such jurisdictional top-ups. They explained that if the IFRS Sustainability Disclosure Taxonomy were built to require the use of preparer extensions (such as via the use of empty explicit axes to provide entity specific breakdowns), that would make it difficult for jurisdictions to extend and produce a taxonomy usable in a closed environment.

25 Another member agreed with the staff analysis but did not think the IFRS Foundation needed to consider closed systems because the choice was up to authorities who could adapt the IFRS taxonomy if needed. They said that considering closed and open reporting systems would make taxonomy maintenance more difficult.

26 ITCG members said that a key factor is the nature of the reporting requirements, specifically whether sustainability reporting were to be 'principles-based' in a similar sense to accounting disclosures. One member cautioned that closed reporting may tend to lead to preparers providing misleading information where a fixed reporting structure does not fit with a flexible, variable, principles-based set of rules for producing information. Extensions can provide more possibility for preparers to interpret the standards and the disclosure requirements, and to distinguish where their disclosures do not fit the expectations of the taxonomy.

27 A member stated that taxonomies have so far often focussed on the tagging of granular detail, as opposed to ensuring that the most fundamental and comparable information is reported (for example, focussing on tagging the details of revenue over ensuring that a total revenue figure is

available). They wondered if it may be possible to get the best of both worlds from a combination of a closed and open environment.

28 The UK (non-ESEF) taxonomy was cited as an interesting example of a 'closed'-like reporting architecture, making extensive use of features enabling controlled extensibility such as typed dimensions and dummy concepts. Technically the UK taxonomy is not a closed system, as preparer extensions are allowed, but their experience has been that there is enough flexibility built in to cover most of the scope of what their reporting requires, without preparers generally needing to use extensions.

29 One member said it was likely that various jurisdiction will desire to provide closed, template-based, environments. If so, they thought the IFRS Foundation may need to support two frameworks, because an architecture designed to support one approach may be difficult for jurisdictions to adapt to the other. They encouraged the staff to speak to regulators.

30 Further, the member observed that there seems to be a frequent assumption that sustainability reporting will look a lot like accounting reporting. Looking at the expected upstream and downstream consumption of sustainability data, they reported an expectation that this information will be consumed for a variety of uses very quickly. There may not be a lot of patience for some of the more creative approaches to extensions that are currently seen in the financial statements. The member said that, if a particular metric is disclosed, users will want to know that it is comparable, and will not want extensions. In contrast, regarding narratives, they said there is a wide variety of ideas of what reporting should contain in the industry, and so it may not work to expect identification into specific, narrow, concepts—reporting may need to be opened up and generalised. Standard-setters will need to consider the uses of the information, and the taxonomy to reflect those policy choices.

IFRS Accounting Taxonomy – financial instruments common practice review

31 The staff provided a summary of the initial findings on the common practice review of disclosures related to financial instruments and possible modelling options to introduce elements relating to the presentation of financial instruments in the statement of financial position. The staff then asked for feedback from ITCG members on these initial findings and possible modelling options.

Background and scope

32 The staff summarised the scope of the common practice review and explained that the review would focus on banking institutions and would be conducted in two phases; firstly analysing the primary financial statements, and secondly analysing note disclosures. The first phase would involve analysing the statement of financial position and statement of cash flows, but not the statement of comprehensive income. The staff asked ITCG members for feedback on scope of this common practice review.

33 One member recommended taking a topical approach to financial instrument presentation and disclosures, as opposed to looking at the primary financial statements separately from the note disclosures. One member expressed concerns on conducting a review of the primary financial statements separately from a review of the note disclosures because this approach may result in common practice elements for the primary financial statements that do not align with potential common reporting practice in the note disclosures.

34 One member recommended analysing specific elements relating to IFRS 7 and IFRS 9 created by XBRL Italy as part of the common practice review, which the staff agreed to explore.

Sample selection

35 The staff summarised the method for sample selection for entities that would form part of the common practice review on financial instruments. The staff will use XBRL-tagged information from both foreign private issuers (FPIs) and ESMA filers as part of the sample. Additionally, the staff recommended to manually analyse a small sample of entities from jurisdictions not represented in the FPI sample. The staff asked ITCG members for feedback on the sample selection for this common practice review.

36 One member suggested to include some entities from Japan in the sample.

37 One member commented that some preparers may provide information in risk reports and then cross-reference this to the financial statements and asked for such disclosures to be included in review.

Initial insights from analysis of statement of financial position

38 The staff summarised the initial insights from an analysis of the statement of financial position and suggested two possible modelling solutions to address the observation that banking institutions often present financial instruments by various characteristics. The two modelling options were:

a. Line item modelling, wherein only commonly reported permutations would be modelled as separate line items, and

b. Dimensional modelling, wherein commonly reported characteristics would be modelled as dimensions and preparers would be able to tag each financial instrument with the dimensions relating to the characteristics presented. The staff mentioned that currently calculations do not work across dimensions and for the dimensional modelling approach to work, the calculation issue would need to be resolved in the XBRL specification.

39 The staff also discussed possibilities for general improvements, including re-organising the presentation layout of financial instruments within the IFRS Accounting Taxonomy and adding documentation or guidance labels to guide preparers to the correct element. The staff asked ITCG members for comments/suggestions on the initial insights from our analysis of financial instruments in the statement of financial position for banking institutions.

40 There was broad support for the use of a dimensional modelling approach. ITCG members cited a few reasons for agreeing with the dimensional modelling approach:

a. There is already use of dimensions in filings and potentially will continue to be used, irrespective of whether the calculation relationship currently works or not.

b. Amounts in the statement of financial position often represent the edge of a hypercube, that is represented elsewhere in the disclosures.

41 One member questioned if dimensions were to be used for the primary financial statements, where do we draw the line as to what an appropriate use of dimensions is and what is not.

42 One member questioned what are the requirements that influence the design of the elements; whether a characteristic would be modelled as a separate dimension or form part of a line item. The staff explained that not every separately identified characteristic would be a separate dimension.

43 In response to the staff's question on any additional suggestions on how to improve the instances of preparers using the wrong elements or creating unnecessary extensions, a few ITCG members suggested preparing guidance material or providing examples on how to tag financial information would help preparers in using the IFRS Accounting Taxonomy, specifically in the banking sector.